

**RESULTS OF THE DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT'S FISCAL YEAR 1999 FI-
NANCIAL STATEMENTS AUDIT**

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY
OF THE

**COMMITTEE ON
GOVERNMENT REFORM**

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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RESULTS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 1999 FINANCIAL STATEMENTS AUDIT

WEDNESDAY, MARCH 22, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Biggert, Ose, Turner, and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Randy Kaplan, counsel; Louise DiBenedetto, GAO detailee, Bonnie Heald, director of communications; Bryan Sisk, clerk; Ryan McKee, staff assistant; Trey Henderson, minority counsel; and Jean Gosa, minority assistant Clerk.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

This hearing is the fourth in a series of hearings to examine the results of the financial audits of selected Federal agencies. We began this series in February and have since heard from witnesses representing the Internal Revenue Service, the Health Care Financing Administration, and the Department of Agriculture.

Today, we will focus on financial management practices at the Department of Housing and Urban Development [HUD].

On March 1, 2000, HUD's Inspector General issued a report entitled, U.S. Department of Housing and Urban Development Attempt to Audit the Fiscal Year 1999 Financial Statements.

In her report, the Inspector General noted that she could not express an opinion on the financial statements because of the Department's inability to produce verifiable financial statements in a timely manner.

It is no secret that management weaknesses have plagued HUD over the years. The General Accounting Office lists HUD as a high-risk agency because its programs are at high risk to fraud, waste, and mismanagement. Last year, the Inspector General gave HUD its first—and only—unqualified opinion. However, the Inspector General noted that verifying the 1998 statements required extensive work and contractor support.

Many of the same deficiencies continued to exist in fiscal year 1999. In addition, however, HUD's effort to develop a new financial management system led to the Inspector General's disclaimer of opinion for 1999.

HUD provides rent and operating subsidies that benefit more than 4 million lower-income households through a variety of programs, including public and Section 8 housing. Eligibility for these programs depends directly on self-reported income. The Inspector General found that HUD's financial control structure did not provide the agency with sufficient information to verify whether tenant incomes were accurate, which often leads to overpayments. Today, we want to learn what the Department is doing to resolve these serious problems.

[The prepared statements of Hon. Stephen Horn and Hon. Jim Turner follow:]

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“Results of the Department of Housing and Urban Development’s Fiscal Year 1999 Financial Statements Audit” CHAIRMAN STEPHEN HORN (R-CA) OPENING STATEMENT March 22, 2000

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We welcome our witnesses and look forward to their testimony.

**Opening Statement of The Honorable Jim Turner
GMIT: "Results of the Department of Housing and Urban
Development's Fiscal Year 1999 Financial Statements Audit"
March 22, 2000**

This is the fourth in a series of oversight hearings on federal financial management. To date, we have reviewed the financial management practices of the Internal Revenue Service, the Health Care Financing Administration, the Department of Agriculture, and today we will turn our attention to the Department of Housing and Urban Development. Taxpayers deserve an accurate look at an agency's books and deserve to know how their tax dollars are being spent. Congress recognized, as early as 1990 with the passage of the Chief Financial Officers Act, that the federal government should maintain reliable financial information that can be audited. The Government Management Reform Act of 1994 required all 24 major agencies to conduct independent financial audits beginning in Fiscal Year 1996. Today, we have the opportunity to discuss some of the tangible results of this process with the audit of HUD's financial statements.

Last year, for the first time ever, HUD received an "unqualified" or "clean" opinion from the IG on its FY 1998 financial statement, which means that its books were reliable. However, this year, HUD received a "disclaimer" on its FY 1999 financial statement, which indicates that the audit process could not be completed by the March 1 deadline. I

understand that the disclaimer is the result of technical difficulties occasioned by the transition to a new financial management system. It is noteworthy that this modernization effort was undertaken in response to recommendations from both the IG and GAO. Furthermore, this disclaimer does not mean that HUD is unable to account for its expenditures or that it will eventually receive a “qualified” opinion its financial statement. Additionally, despite substantial progress in addressing a number of long-standing “high risk” areas and material management problems, the IG still reported control weaknesses. The Subcommittee will explore what HUD is doing to resolve its long-standing financial management problems.

Millions of Americans depend on HUD administered programs for adequate and affordable housing, economic opportunity, and a suitable living environment, free from discrimination. Therefore, it is imperative that we ensure that these programs are running correctly and efficiently. In closing, I would like to commend HUD for the significant progress it has made in the area of financial accountability. I am confident that HUD will complete its recommended financial modernization plan and once again, receive an “unqualified” opinion on its financial data. I commend the Chairman for his focus on this issue and welcome the witnesses here this morning. I am hopeful that the results of this audit will further improve HUD’s management and better protect the financial integrity of its programs.

Mr. HORN. We welcome our witnesses and look forward to their testimony.

Today's witnesses are Susan Gaffney. She is accompanied by Kathryn Kuhl-Inclan, Assistant Inspector General for Audit; James Heist, Director of the Financial Audits Division; Benjamin Hsiao, Director of the Information Systems Audit Division; and Saul Ramirez, Deputy Secretary, Department of Housing and Urban Development; and he is accompanied by Victoria Bateman, Comptroller for FHA.

If you will stand and raise your right hands.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all six witnesses have affirmed the oath, and we will now start with the distinguished Inspector General, Susan Gaffney.

For those of you who haven't been here before, once we introduce somebody, their full statement is in the record. We want you to summarize it in maybe 5 to 10 minutes and look us in the eye and tell us what this is all about and try to cut out the bureaucratic labels. That is for keeping in the buildings but not on Capitol Hill. I want to have a dialog here and not bureaucratic lingo.

Ms. Gaffney, it is all yours.

STATEMENTS OF SUSAN GAFFNEY, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY KATHRYN KUHL-INCLAN, ASSISTANT INSPECTOR GENERAL FOR AUDIT; JAMES HEIST, DIRECTOR OF THE FINANCIAL AUDITS DIVISION; BENJAMIN HSIAO, DIRECTOR OF THE INFORMATION SYSTEMS AUDIT DIVISION; AND SAUL RAMIREZ, DEPUTY SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY VICTORIA BATEMAN, COMPTROLLER FOR FHA

Ms. GAFFNEY. Thank you, Mr. Chairman.

When the CFO Act was enacted in 1990, I had some questions about whether this good management legislation was really going to have substantive results. Now, looking back, there is a lot of good news. The Congress, OMB, agency CFOs, and IGs, I think, have made progress governmentwide in improving financial management, although that progress has been slow.

But the CFO's Act has kept the spotlight on financial management and the importance of financial management in the agencies. That is very good.

The bad news, from my perspective, is that this spotlight has narrowed increasingly to look at the importance of unqualified opinions on agency financial statements. There is significant pressure from OMB and from the Congress, I believe, for agencies to get unqualified opinions on their financial statements. There seems to be an assumption that an unqualified opinion equates to what I read in the media last week, the "good housing seal of approval" on agency financial management. Mr. Chairman, that is simply not the case, and there are a couple of reasons for that I would like to point out.

What the CFOs Act is about is having reliable, accurate financial information on an ongoing basis. Financial statements are prepared once a year at a particular point in time. They don't give you

any necessary indication of how well the agency is doing in terms of ongoing financial management. The second thing that is important to understand is that virtually any entity, given enough time and resources, can get an unqualified opinion on its financial statements.

My concern is that, with this obsession with unqualified opinions on financial statements, we are essentially gaming the CFO's Act. This is not what the CFOs Act was about, but we seemed to have stopped our measurement of success with the opinion. So, let me tell you how this plays out.

Last year, HUD produced financial statements. Their financial systems were not capable of producing auditable financial statements, and so they hired contractors and spent more than \$2 million in getting their financial statements in shape. We audited them and gave HUD an unqualified opinion. That was last year.

In the intervening year, HUD tried to do something very good. They tried to implement a standard general ledger for the Department, in order to overcome a real weakness that they had. That is great news. But they had difficulty in implementing the standard general ledger and couldn't produce financial statements, so this year we issued a disclaimer of opinion.

Now the irony of the situation is that if HUD had not tried to do something good, which was to implement the standard general ledger, if they had just done what they did last year, which was not implement the standard general ledger and hire consultants for \$2 to \$3 million to put together financial statements, they probably would have gotten another unqualified opinion.

What we should be looking for is agency ability to produce financial statements in the course of various ongoing operations, and I suggest to you that a once-a-year opinion on financial statements is not an adequate measure of an agency's abilities to do this. I am telling you, this compulsion with that opinion has become counter-productive.

HUD is now extremely motivated to get an unqualified opinion. What I suggest to you is that we need some different and/or additional performance measures, and I am not just talking about HUD, I am talking governmentwide. We need somehow to be assessing whether it is the agency financial systems that are producing the financial statements without the need for extensive additional manipulation. We also need performance measures that look at the report on internal controls.

Each one of these audits has three parts: the opinion, the report on internal controls, and the report on compliance with laws and regulations, but no one ever talks about the report on internal controls or the report on compliance with the laws and regulations, and the reason is that they are boring, they lack the pizzazz of the opinion. But it is the report on internal controls that outlines all those boring systemic problems that need to be fixed before you have financial systems that can do what we want to do on an ongoing basis. I think we also need to measure institutional/organizational things like do the agencies have CFOs in place, do they have CIOs in place, and do the CIOs and CFOs have sufficient authority and responsibility to get the job done in the agencies.

In the case of HUD, in spite of the fact that they got an unqualified opinion, the material weaknesses and reportable conditions that we have been reporting have essentially remained unchanged. HUD has not had a CFO in place for a year now. Further, HUD has a CIO who has no operational authorities or responsibility. In HUD, the CIO has been defined as a policy role. The information technology people are under a separate organizational unit, the Office of Administration, and in a recent reorganization of the Office of Administration the standing of that information technology staff has, in my opinion, been reduced.

So, my plea to you is let us look more broadly at these things, let us develop additional measures, and let's get at the institutional problems rather than just the pizzazz.

Thank you, Mr. Chairman.

Mr. HORN. Thank you for that testimony.

[The prepared statement of Ms. Gaffney follows:]

**STATEMENT OF
SUSAN GAFFNEY, INSPECTOR GENERAL
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY
MARCH 22, 2000**

**STATUS OF FINANCIAL MANAGEMENT AT THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Chairman Horn, Ranking Member Turner, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to give you my perspectives on the status of financial management at the Department of Housing and Urban Development (HUD). I am accompanied by Kathryn Kuhl-Inclan, Assistant Inspector General for Audit; James Heist, Director of the Financial Audits Division; and Benjamin Hsiao, Director of the Information Systems Audit Division. As the subcommittee is aware, the Office of Inspector General (OIG) reported on March 1, 2000 on our efforts to audit HUD's fiscal year 1999 consolidated financial statements and issued a disclaimer of opinion. OIG also issued reports on audits of the Government National Mortgage Association (GNMA) and the Federal Housing Administration (FHA), on February 24 and 29, 2000, respectively. Those audits were performed by the independent accounting firm of KPMG LLP, under contract with the OIG. KPMG LLP's reports included unqualified opinions on GNMA's and FHA's fiscal year 1999 financial statements.

Before I address issues at HUD, I'd first like to take a moment to discuss the broad purposes of the Chief Financial Officers (CFO) Act and our perspectives on the emphasis being placed on agencies' success in having auditors express unqualified opinions on their financial statements. In passing the CFO Act nearly 10 years ago, the Congress laid out three broad purposes:

1. Bring more effective general and financial management practices to the Federal Government through statutory provisions which would establish in the Office of Management and Budget a Deputy Director for Management, establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer in each executive department and in each major executive agency in the Federal Government.
2. Provide for improvement, in each agency of the Federal Government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources.

3. Provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs.

Nowhere in these broad purposes does the CFO Act list obtaining an unqualified opinion, yet this has become the one measure that is pointed to frequently as a measure of success in improving agencies' financial management. Indeed, the President's fiscal year 2001 budget put forth a performance goal for 18 of the 24 CFO Act agencies to receive unqualified opinions on their fiscal year 1999 financial statements. While we understand that goals are important, what is missing here is a set of goals that speak more directly to the purposes of the CFO Act.

We believe that HUD's success in addressing the material weaknesses and reportable conditions in our Report on Internal Controls, which is an integral part of the financial statement audit, would be a more meaningful CFO Act performance measure than receipt of an unqualified opinion. As we pointed out in our March 1, 2000 report, HUD's ability to obtain an opinion for fiscal year 1998, while noteworthy, required extensive contractor support along with ad hoc analyses and special projects to develop account balances and necessary disclosures. This was due to continued weaknesses in HUD's internal controls and financial management systems. For fiscal year 1999, we reported a total of 17 reportable conditions, 5 of which we also classified as material weaknesses. We describe in our fiscal year 1999 report the deterioration of the internal controls relating to HUD's core financial management systems that resulted from the implementation of a new Departmental general ledger and ultimately led to our decision to disclaim an opinion on the fiscal year 1999 financial statements.

HUD continues to rely on extensive contractor support to overcome limitations in the preparation of financial statements that are brought about by poor internal controls. These efforts are in large part directed at obtaining unqualified opinions, and not correcting the systems that continue to adversely impact our ability to audit HUD's financial statements in a timely and efficient manner.

In the following paragraphs, we (i) explain the reasons for our disclaimer of opinion, (ii) summarize the Report on Internal Controls, and (iii) summarize the Report on Compliance with Laws and Regulations. The latter two reports are integral parts of the financial statement audit.

DISCLAIMER OF OPINION:

We were unable to issue an opinion on HUD's financial statements for fiscal year 1999, and as a result, we issued a disclaimer of opinion. Our decision to issue a disclaimer considered the CFO Act statutory date of March 1 to complete the audit. Both the Congress and OMB had emphasized the importance of meeting the March 1 date this year. Indeed, we understand that only four OIGs missed the deadline compared to ten last year. We considered this in reaching our decision to stop the audit. That decision also considered the prospects of our being able to complete the audit in a reasonable period of time after the deadline. We assessed the amount of work that, first of all, needed to be completed by the Department to reconcile their "fund Balance with Treasury" accounts (analogous to cash in a bank account) and finish the financial statement preparation process. Secondly, we considered the effort required for us to finish our audit work.

It was clear to us that, optimistically, the best we could hope for would be to complete the audit sometime in April 2000 and this was not acceptable. We were one of the agencies that missed the deadline last year. However, last year the audit process had not been as significantly delayed by the systems conversion effort as was the case this year. Moreover, at March 1 last year, we could reasonably anticipate being able to complete the audit and issue our opinion before the end of the month and, indeed, we were able to so.

HUD criticized our decision to stop the fiscal year 1999 audit and has alleged that we did not follow professional standards by not notifying them of our decision to disclaim an opinion in time for them to take corrective action. We disagree that we violated any standards relating to timely communication. We made it clear throughout the audit process that we intended to issue our report in time to meet the March 1, 2000 statutory due date and that our inability to complete the audit could affect the opinion. We would also point out that the conclusions with respect to HUD's internal control weaknesses, which led to the restriction of our audit scope, were formally communicated to the Department on February 9, 2000. It was only after we informed HUD officials on February 23, 2000 that those same issues were causing us to disclaim an opinion, that HUD initiated a concerted effort to accelerate the completion of the fund balance with Treasury reconciliations. This effort included contractor support to perform a basic accounting function that should have been completed by HUD staff months earlier. We can only conclude that HUD was motivated to take this action primarily because of a desire to obtain an opinion, rather than acting immediately to address the material weakness with HUD's core financial management system that was included in our draft report on internal controls. We began the fiscal year 1999 consolidated audit in June 1999 and spent nearly 20 staff years performing the audit.

For the fiscal year 1999 audit, the limitation in our audit scope was caused by the following factors:

- the undetermined effects of the conversion problems during the fiscal year of the general ledger from the Program Accounting System (PAS) to HUD's Central Accounting and Program System (HUDCAPS),
- the inadequate state of HUD's reconciliation efforts and their documentation for the general ledger accounts for the fund balance with Treasury, and
- the late manual posting of numerous and significant adjustments (some as late as February 25, 2000) directly to the financial statements, for which we lacked sufficient time to test their legitimacy.

HUD implemented a major change to its accounting system in fiscal year 1999, including a new Department-wide general ledger system using HUDCAPS. The attached "FY 1999" chart illustrates the major accounting systems used to account for the vast majority of HUD funds, and how those systems relate to one another and ultimately provide information needed to prepare the financial statements. The "FY 1998" chart illustrates the system relationships before the conversion of the general ledger to HUDCAPS. Prior to that conversion, PAS, one of HUD's "legacy" mainframe systems, served as HUD's general ledger for HUD's grant, subsidy and loan programs. Systems maintained for the Federal Housing Administration (FHA) and the

Government National Mortgage Association (GNMA) were separate and those entities maintained and continue to maintain separate general ledgers.

As illustrated in the "FY 1999" chart, the Department decided to implement HUDCAPS as its Department-wide general ledger. While we agree that the Department needs to integrate its general ledger systems, the implementation was problematic in three areas.

- HUD had to develop an interface and needed to convert existing data from PAS. The general ledger system was migrated from PAS to HUDCAPS during fiscal year 1999; however, as we note in our report, the transition was a significant undertaking and is still not complete. The interface filter and the general ledger posting models resulted in numerous rejected or incorrectly posted transactions that had to be manually researched and corrected. In addition, the migration was done without development of an automated program to help reconcile the general ledger cash accounts to Treasury's figures.
- Summary level data from the separate FHA and GNMA general ledger systems were to be periodically transferred to HUDCAPS. This should occur at least monthly. However, as we note in our report, the transfer of fiscal year 1999 FHA data was done once after year end and required inefficient manual processes.
- HUD used a financial statement report consolidation software called Hyperion Enterprise to prepare the financial statements. Reconciliation processes to identify discrepancies with Treasury fell behind schedule, and HUD had to make numerous adjustments to the general ledger fund balance with Treasury balances to make them agree with Treasury records. These adjustments were not made via the normal general ledger posting process. Rather, they were made directly to Hyperion Enterprise. At the time we discontinued our audit work, a total of 42 adjustments totaling about \$17.6 billion had been processed in this manner to adjust fiscal year 1998 ending balances. An additional 242 adjustments totaling about \$59.6 billion, were made to adjust fiscal year 1999 activity.

REPORT ON INTERNAL CONTROLS

In reporting our findings on HUD's systems of internal controls, our report distinguishes between material weaknesses and reportable conditions. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect HUD's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Certain of the reportable conditions were also considered to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The following paragraphs summarize the material weaknesses in our report on our attempt to audit HUD's fiscal year 1999 consolidated financial statements and KPMG LLP's audit of FHA's fiscal year 1999 financial statements. We also provide a listing of the additional reportable conditions not categorized as material weaknesses.

Material Weakness: Information Systems

The most critical need faced by HUD in improving its internal controls is to complete development of adequate systems. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. The objective of the Financial Systems Integration (FSI) Plan is to correct Department-wide financial management deficiencies while simultaneously providing the information necessary to carry out the financial and programmatic missions of the Department. A major component of the FSI plan was to implement HUDCAPS, as the core financial system for the Department. As implemented, the HUDCAPS core financial system does not fully comply with federal financial system requirements. In addition, other HUD financial system weaknesses remain uncorrected and financial system integration delays continue. The Department's failure to correct long standing financial system weaknesses in its feeder systems is a contributing factor to non-compliance with financial system standards at the core financial system level. The following financial management system deficiencies, most of which were reported in prior years, were present during fiscal year 1999:

- Insufficient information regarding individual multifamily loans, including the inability to financially monitor the insured portfolio. This makes assessing and quantifying credit risk difficult and adversely impacts efficient, ongoing reporting of credit risk to senior management and effective monitoring of multifamily projects.
- Deficient FHA general ledger and subsidiary systems.
- Inadequate assurance about the propriety of Section 8 rental assistance payments.
- Lack of integration between program and accounting systems necessitating duplicate data entry.
- Inability to support adequate funds control for FHA.
- Inability to fully support the timely identification of unneeded excess funds remaining on expired project-based Section 8 contracts.

In addition, the Department's financial systems continue to have security weaknesses in general and specific application controls.

The bulk of our information system work for the fiscal year 1999 audit focused on HUDCAPS since it became the core financial system and general ledger for the Department. We have reported the following specific deficiencies related to HUDCAPS.

Departmental General Ledger

The Department-wide general ledger in HUDCAPS is not fully compliant with federal financial system requirements. Due to uncorrected weaknesses in FHA's financial management system, FHA's separate financial data are not updated each month in the HUDCAPS Departmental general ledger as required. The current approach for interfacing

FHA financial systems with HUDCAPS requires the performance of a series of cumbersome manual conversions of financial data prior to submission to HUDCAPS. First, financial information from feeder systems is converted to a commercial accounting based general ledger. A second manual process translates the commercial accounts and balances to the equivalent Standard General Ledger (SGL) in HUDCAPS. These data are then used to generate standard financial reports and summary SGL entries. Because of this complex process, updated FHA general ledger financial information was transmitted to HUDCAPS only once and after year-end.

The Joint Financial Management Improvement Program (JFMIP) requires that the core financial system "...provide for automated month-and year-end closing of SGL accounts and rollover of the SGL account balances." In addition, OMB Circular A-127, *Financial Management Systems*, requires that "...Integrated Financial Management Systems...shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems....Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles."

The process to enter FHA SGL transactions into the Department-wide general ledger is neither timely nor efficient. As a result, there is no assurance that information on Departmental activities can be disseminated in a timely manner to support internal or external users. In addition, the continued reliance upon manual processes to convert FHA financial transactions into a usable format is inefficient and requires duplicate entry of data.

System Interfaces

JFMIP Core Financial System requirements state that "easy and timely reconciliations between systems, where interface linkages are appropriate, must be maintained to ensure accuracy of the data." The general ledger system was migrated from the legacy PAS to HUDCAPS during the fiscal year; however the transition has not been completed at the time of our report. The interface filter and the general ledger posting models have resulted in numerous rejected or incorrectly posted transactions that have to be manually researched and corrected. In addition, the migration was done without development of an automated program to help reconcile the general ledger cash accounts to independent Treasury figures. As a result, the reconciliation processes to identify discrepancies have fallen behind schedule, and HUD had to make numerous adjustments to the general ledger cash balances to make them agree with Treasury records. These adjustments were made directly through posting to the financial statement report consolidation program called Hyperion Enterprise and bypassed the normal general ledger posting process. The noted problems delayed the closing of the general ledger for fiscal year 1999 until January 24, 2000, and the preparation of the financial statements.

"Fund Balance with Treasury" (Cash) Reconciliations

Treasury requires that agencies reconcile their fund balance with Treasury accounts monthly. The reconciling process is analogous to individuals reconciling their checking

accounts to their monthly bank statements. It is an essential internal control to ensure the integrity of U.S. Government financial reporting and provide for reliable measurement of budget results. Due to delays and the magnitude of the FSI implementation, the HUDCAPS general ledgers were not available to support the reconciliation process until November 1999. As a result, the CFO staff relied on the PAS subsidiary ledger balances to verify the Department's fund balance with Treasury. Reconciliations did not start taking place until late July 1999 for all but four funds. For the remaining four funds, reconciliations were not completed until after fiscal year end because subsidiary records for those funds were maintained in both HUDCAPS and PAS. As of the date of our report, HUD had not reconciled the differences between HUDCAPS, PAS and Treasury reported balances. We tried to obtain documented procedures on how HUD completed the cash reconciliation using HUDCAPS; however, none were available. In addition, we tried to obtain explanations for the differences between the fund balance shown in HUDCAPS versus the Treasury reported balances. These explanations could not be readily provided by the CFO staff preparing the reconciliations because they were still waiting for the necessary information from HUDCAPS to facilitate the reconciliation process. Untimely cash reconciliations resulted in questionable accuracy and reliability of amounts reported in the fund balance with Treasury accounts.

Data Integrity

HUD uses a powerful system utility to resolve data discrepancies by directly altering the data in the HUDCAPS financial tables. Because of this ability to directly change data, the use of this utility must be strictly controlled to prevent unauthorized access and/or unintentional errors from occurring. There were an excessive number of users with access to the utility, including users from four different contractor firms as well as HUD program offices. We questioned the need for the high number of users and the database administrator agreed not all the users on the list require access to perform their jobs. Allowing uncontrolled use of such a utility exposes HUD's financial data to damage and fraudulent activities.

Another problem was the lack of audit trails. Although some processing documentation exists, it is not complete. In some instances, we were unable to locate corresponding problem initiation records, change approval documents, and system output reflecting changes made to the tables. This condition occurred because there are no formal policies or procedures to control the use of this utility. There are no standard procedures for reporting and documenting problems. Also, change requests were being approved by various program offices as opposed by the system owner, the CFO. Further, the input parameters and output files are maintained in numerous private libraries instead of a centralized system library. A central library is necessary to provide a standardized audit trail and ensure proper file maintenance during staff turnover. As a result, errors and omissions made to the financial records could occur and remain undetected.

Material Weakness: Verification of Subsidy Payments

HUD provides rent and operating subsidies to housing authorities and multifamily project owners that benefited over 4 million lower-income households through a variety of programs,

including public housing and Section 8. HUD's control structure that was in place during fiscal year 1999 did not provide reasonable assurance that these funds were expended by housing authorities and project owners in compliance with the laws and regulations authorizing these programs. HUD estimates that excess subsidy payments totaled about \$935 million for calendar year 1998. The admission of a household to these rental assistance programs and the size of the subsidy it receives depend directly on its self-reported income. HUD's control structure does not provide reasonable assurance that subsidies paid under these programs are valid and correctly calculated considering tenant incomes and contract rents.

Tenant income is a major factor affecting eligibility for, and the amount of housing assistance a family receives, and indirectly, the amount of subsidy HUD pays. In general, HUD's subsidy payment makes up the difference between 30 percent of a household's adjusted income and the housing unit's actual rent or, under the Section 8 voucher program, a payment standard. When tenants do not report income or under-report income from a specific source and the non-reporting remains undetected, HUD makes excessive subsidy payments.

HUD developed the \$935 million nationwide estimate of the amount of excess rental subsidies paid during calendar year 1998, in order to provide for disclosure of the magnitude of improper payments. Various efforts are planned and underway to build upon this and address the need to institute an ongoing quality assurance program to improve controls over these payments. This includes a large scale income tax data matching project. To ensure that these projects are effective, HUD has taken action to improve the accuracy of and enforce requirements for housing authorities to timely update information in its tenant databases.

Material Weakness: Monitoring Multifamily Projects

HUD needs to continue efforts to improve the effectiveness of multifamily project monitoring to assure that subsidies are provided only to projects that provided decent, safe and sanitary housing or on behalf of tenants that meet HUD eligibility requirements. Also, HUD's monitoring of project based Section 8 contract administration by state housing finance agencies and housing authorities has continued to be inadequate. Plans to rely on contract administrators to assume HUD's role in project monitoring have not yet been implemented. HUD provides rental assistance to about 21,000 multifamily projects on behalf of eligible tenants residing in those projects. This assistance includes FHA mortgage insurance and funds provided under several subsidy programs. The principal multifamily subsidy programs are:

- The Section 8 and Section 236 programs, which provide subsidies to project owners, who, in turn, provide housing units at reduced rents to low income households.
- The Section 202 and Section 811 programs, which provide grants to non-profit institutions for the construction of projects providing reduced rent units to the elderly and disabled, respectively. Ongoing rent subsidies are also provided under these programs once the units are occupied.

Most of these subsidies and grants are provided through direct contracts with multifamily project owners; there is no housing authority or local government intermediary. Accordingly, HUD has more responsibility for ensuring that project owners provide support only to eligible

tenants and that they comply with the contract and program laws and regulations. This is a significant responsibility because of the sizable number of projects HUD must monitor.

The Real Estate Assessment Center (REAC) has made some progress in providing for assessing the overall physical condition of HUD's housing portfolio, and reports completing 28,835 physical inspections of multifamily and housing authority properties during fiscal year 1999. However, at fiscal year end, the REAC had not completed financial assessments of multifamily projects due to delays in the rollout of its Financial Assessment Subsystem. In addition, HUD's plans to outsource the workload associated with housing assistance contracts have been delayed from the original plan of September 1998 to where HUD now expects to begin transferring these functions in June 2000. HUD field offices are not sufficiently staffed to adequately review project and housing authority financial statements without REAC's assistance, nor have they been able to perform sufficient on-site monitoring. Until these initiatives have been sufficiently implemented, HUD will continue to be hampered in its ability to effectively monitor multifamily projects.

Material Weakness: Controls over FHA Budgetary Funds and Funds Control:

FHA must perform analyses and reconciliations of all of its obligation systems, to ensure that all obligated amounts are properly recorded and that funds control is maintained and implemented in all systems. This process directly relates to ensuring that budgetary status and accounting information is complete, accurate, and available to management for decision-making purposes. KPMG LLP noted the following weaknesses in FHA's budgetary and accounting processes:

- Budgetary reporting of appropriation symbol 86X4077 was misstated by approximately \$64 million. The SF-133, *Report on Budget Execution*, dated November 19, 1999, submitted to OMB by HUD's CFO Office did not include an automatic apportionment of authority with respect to the interest payment to U.S. Treasury which occurred at fiscal year end. This reporting error occurred because correct and timely information was not available due to the lack of integrated and reconciled budgetary and accounting systems and processes.
- Obligations needed to be reviewed and reconciled. Although FHA fully reconciled obligation activity during the fiscal year, they did not fully reconcile the ending balance of commitments and obligations resulting from underwriting activity during fiscal year 1999 and prior years.
- FHA's general ledger budgetary obligation accounts were not fully supported. During fiscal year 1999, FHA analyzed its general ledger and developed a documented crosswalk to the SGL to prepare both the financial statements and the SF-133s, *Report on Budget Execution*. FHA also implemented the budgetary-related SGL accounts in its general ledger. However, the subsidiary systems that contain the transaction detail activity supporting the SGL did not provide reports which were properly reconciled to the general ledger. In addition, detailed reports supporting the aggregate amounts recorded to the general ledger and SF-133s were not maintained.

Material Weakness: FHA's Information Technology Systems:

For a number of years, weaknesses have been reported in FHA's financial management system environment. FHA's and HUD's inability to acquire more modern information technology has continued to deter FHA's efforts to be a more efficient and effective housing credit provider. Until a comprehensive new integrated information technology environment is implemented and available throughout HUD, FHA will continue to be forced to collect data and report information in less efficient ways.

FHA and HUD are conducting day-to-day business with legacy based systems, several of which directly impact FHA's financial activity and necessitate financial transactions to be processed through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. In addition, key FHA systems do not provide the functionality required to sufficiently manage and account for system transactions in accordance with OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-130, *Management of Federal Information Systems*. Finally, HUD continues to report material system non-conformances under the Federal Managers' Financial Integrity Act, several of which relate to FHA systems. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting FHA financial activities.

Other Reportable Conditions:

Other reportable conditions are discussed at length in our report. They represent significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect HUD's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. The reportable conditions relate to the need to:

- refine performance measures to effectively implement results management;
- improve controls over project-based subsidy payments;
- improve monitoring of housing authorities;
- improve controls over HUD's computing environment;
- overhaul personnel security for systems' access;
- strengthen access and data integrity controls over HUDCAPS;
- improve processes for reviewing obligation balances;
- continue to place more emphasis on early warning and loss prevention for FHA insured mortgages;
- continue actions to safeguard and quickly resolve Secretary-held FHA Single Family mortgage notes;
- sufficiently monitor and account for FHA Single Family property inventory;
- improve the review process for estimating reserves for the FHA insured portfolio; and
- enhance the design/operation of controls over FHA's information systems security and application data integrity.

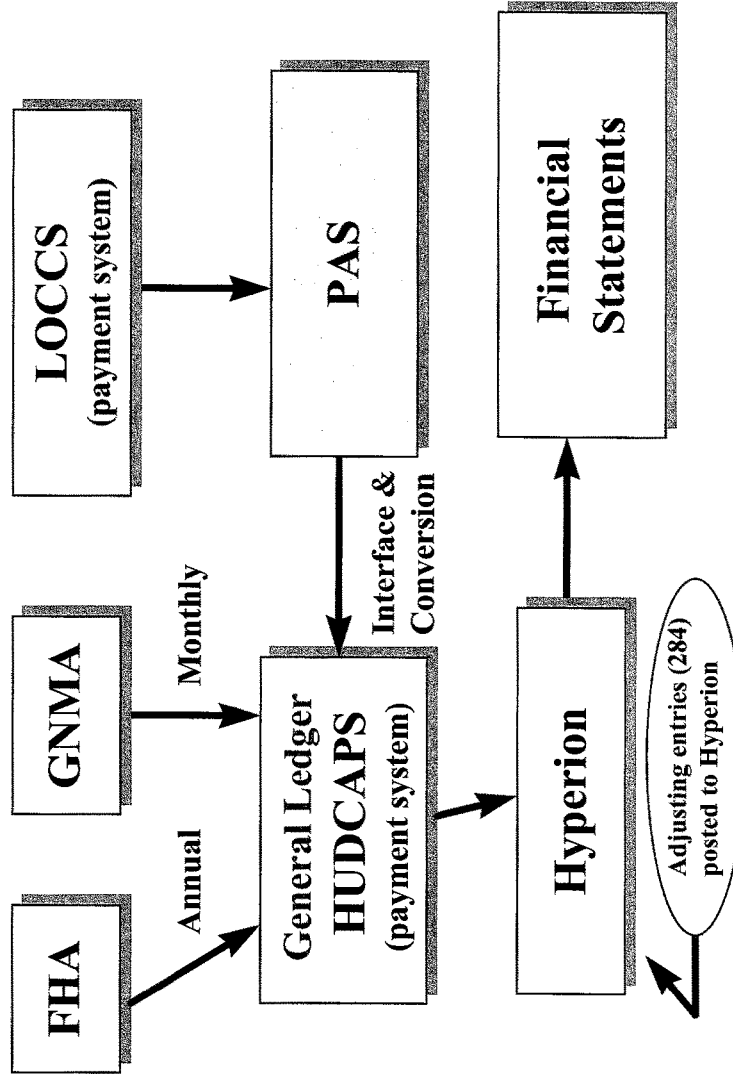
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS:

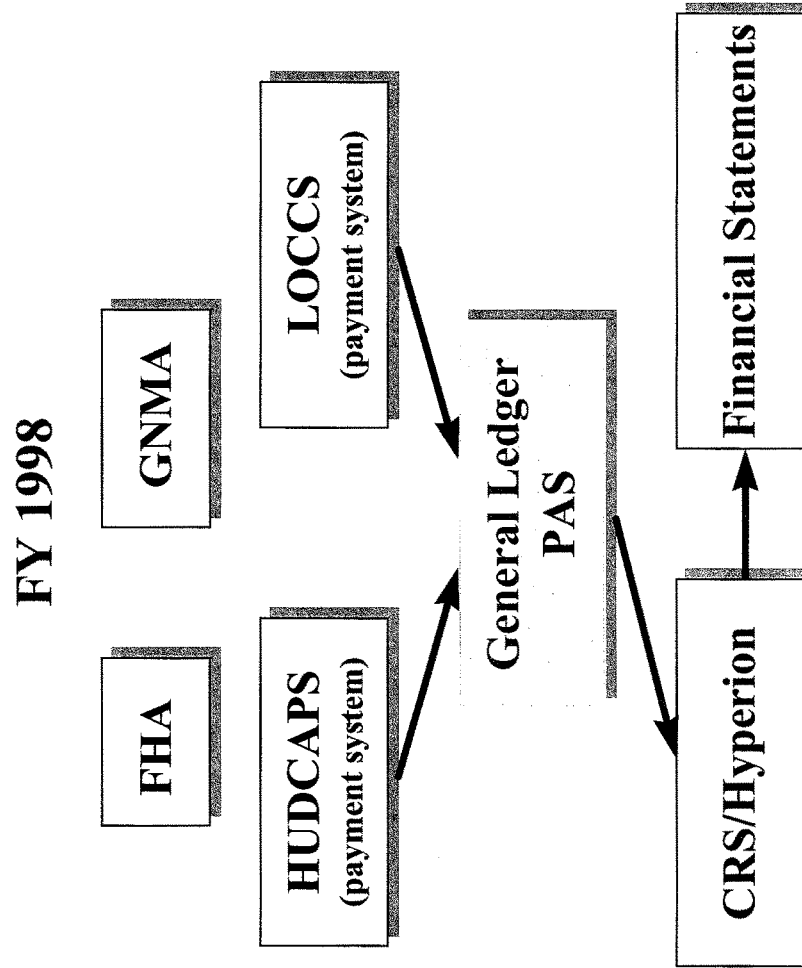
Our findings also included the following instances of non-compliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, (2) Federal Accounting Standards, or (3) the SGL at the transaction level.
- HUD did not comply with the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998. Specifically, HUD is not timely or properly enforcing the act's requirements for the timely expenditure and obligation by housing authorities of public housing modernization funds. HUD disagreed with our conclusion.

Mr. Chairman, that concludes my testimony, I appreciate the opportunity you have afforded me to appear here today.

FY 1999





Mr. HORN. We now turn to the Deputy Secretary, Mr. Saul Ramirez, Department of Housing and Urban Development. Welcome.

Mr. RAMIREZ. Thank you, Chairman Horn and Ranking Member Turner, for allowing us to testify on this issue of the audit and where we currently stand as far as our financial condition.

I would like to request that my written testimony which was provided be submitted for the record, and I will summarize my comments working off of it.

Let me say first that the Department's financial house is in order. HUD has received a \$26 billion budget for the delivery of decent, safe, and sanitary housing to over 5 million Americans, and we have invested those funds in sound policies and programs that have assisted homeless people, low-income families, and first-time home buyers in communities across the country.

FHA and its Mutual Mortgage Insurance Fund are the healthiest they have been in decades. The total value of the fund stands at an all-time record high at over \$16.6 billion, an increase of \$5.3 billion from the economic value reported in fiscal year 1998. The Clinton administration's fiscal year 2001 budget proposal has already projected over \$20 billion to be returned to the Treasury by FHA from 2002 to 2006. When combined with the current economic value of \$17 billion, this amount is more than sufficient to assure the safety and soundness of FHA's \$450 billion portfolio of outstanding mortgage insurance.

Building on their successes, HUD has been working very hard to improve our management controls, including our financial management systems, in order to rebuild public confidence in our ability to administer housing funds. Last year, for the first time, HUD received an unqualified opinion for its fiscal year 1998 financial statements. We regarded that as a significant achievement, but we did not rest on our laurels. We proceeded with the implementation of an ambitious new financial management system called HUDCAPS which, when completed, will result in a significant consolidation of the agency's financial reporting protocols from over 80 different systems to a handful of systems.

We have a multiyear conversion plan that we have put in place and is under way. The technical and logistical challenges that were posed are as a result of the task of transferring nearly 1 trillion transactions from our old general ledger system, the PAS system, to the new HUDCAPS system, significantly complicating the task of preparing and auditing our financial statements. Each of these 1 billion transactions have been converted from PAS to HUDCAPS, and the funds reported had to be reconciled to the fund balances as reported to Treasury. The audit occurred in the middle of this conversion and reconciliation process.

Mr. HORN. Just so we can understand that chart, obviously the FHA is Federal Housing Administration. And what is GNMA?

Mr. RAMIREZ. GNMA is Ginnie Mae. LOCCS is our payment system for our grantees and customers.

Mr. HORN. What does it do?

Mr. RAMIREZ. It tracks their spending rates. CDBG grant money, in order for a grantee to draw down on their entitlement, they need to file their request through the LOCCS system, which is the payment system.

Mr. HORN. What is L-O-C-C-S? Can anybody explain that?

Mr. RAMIREZ. The acronym is Letter of Credit—the acronym itself—

Mr. HSIAO. Line of Credit Control System.

Mr. RAMIREZ. It is a drawdown system. I thought we were going to stick to plain English, not bureaucratic jargon.

Mr. HORN. Exactly. HUDCAPS is what?

Mr. RAMIREZ. It is our recapture system for the agency. The general ledger for all of the different activities that take place within the Department through the different programs that we administer.

Mr. HORN. What is P-A-S?

Mr. RAMIREZ. That is the PAS system, which is the current ledger system which is our primary accounting system.

Mr. HORN. What is Hyperion?

Mr. RAMIREZ. That is the equivalent of a Lotus system, but for financial reporting systems that produces the actual financial statements that you see that they are pointing to at the end.

Ms. GAFFNEY. To be fair to Mr. Ramirez, just for the record, that is our chart. I just wanted to make sure that the chairman knew that you were being put on the spot with our chart.

Mr. RAMIREZ. Thanks.

Let me just continue, Mr. Chairman. If you have any questions, I will try to answer them.

Each of these transactions, the trillion transactions that we do a year that are currently booked through the principal accounting system or primary accounting system, the PAS, were being converted to HUDCAPS. The audit occurred in the middle of that conversion, and so what we were doing is running simultaneously in order to be able to make sure our system would hold the transactions when we went into HUDCAPS, the PAS system and our HUDCAPS system. Ultimately, what happened was the HUD Inspector General's office informed us that they were unable to complete their task, as the Inspector General mentioned, of auditing our financial statements for 1999 by the March 1 deadline which had been accelerated under the new requirements.

We are working with the OIG to enable a complete review of our financial statements, and I am proud to say that we are working well in that endeavor. The retention of a clean audit opinion on HUD's consolidated financial statements is an annual goal that we are working at.

Closely related and even of greater importance, and I agree with what the Inspector General stated, is to deal with our corrective actions, with our long-standing material internal control and systems weaknesses which led to the GAO designating HUD as a high-risk agency in 1994. HUD's efforts to correct these weaknesses were recognized just last month by GAO's David Walker, the Comptroller General, who testified before the House Budget Committee that HUD had made credible progress toward improving its management and that HUD's management team had given top priority to addressing the Department's management deficiencies.

Some of the HUD reforms referenced by Mr. Walker are worth noting here, particularly those relating to modernizing our financial systems.

As the committee is well aware, several long-standing agency weaknesses related to HUD's inability to manage our housing portfolio. We did not know exactly what properties we were funding and how to maximize the public dollars for investments and improvements to public and assisted housing. To address this, HUD developed and tested a four-part Public Housing Assessment System which evaluates our public housing authorities on their physical condition, financial soundness, management capacity, and resident satisfaction. As a result, we now have the Nation's first computerized record detailing the condition of our housing stock.

As part of these assessment protocols, HUD also developed a state-of-the-art tenant income verification, a fraud prevention system that uses computer-matching technology to identify potential underpayments of tenant income and ensures that only income qualified households receive housing subsidies to benefit tenants and property administrators by streamlining the verification process.

We are now in a position to perform front-end risk analysis for new housing programs, provide regulatory relief to the public and assisted housing properties that score exceptionally well on their assessments, and target our resources to those who need to elevate their delivery of decent, safe, and sanitary housing to our residents.

The results are reflected not only in our communities but in HUD's financial and audit reports as well.

Turning our attention to the audit reports, I am pleased to report that although we started fiscal year 1999 with eight material weaknesses, one material weakness, management and control of staff resources, was downgraded to a reportable condition. This was accomplished because HUD completed organizational changes, provided greater management accountability for achieving program and operating goals, and enhanced the Management Control Program structure and activities, as well as increased risk-based management control techniques.

In addition, the Federal Housing Administration accomplished significant progress in addressing its three reported material weaknesses, eliminating one of them and downgrading another to a management concern.

In this year's FHA audit, the material weakness relating to the FHA Resource and Asset Management Strategy has been completely eliminated. In addition, the real estate assessment tools I just described have enabled FHA to monitor its insured multifamily portfolio such that the material weaknesses related to our early warning and loss prevention for FHA insured mortgages was downgraded to a management concern. Only one material weakness remains open—that is the FHA Federal basis and budgetary reporting. Even here, significant actions have been taken to account for FHA's financial commitments, such as routine procedures to analyze contracts and purchase orders as well as reviews of loan guarantee commitments and endorsements to ensure that all our credit subsidy amounts have been properly recorded.

We have dedicated resources to address each and every material weakness and reportable condition cited in the audit. Already, we are in the process of completing the HUDCAPS conversion and reconciling process by compiling documentation to support the rec-

conciliation which was a weakness and I believe the principal reason that the Inspector General felt that they needed to file the disclaimer on our finances.

We are hopeful, though, that we will yet receive a clean audit for the fiscal year 1999 and in particular our financial statements. Our goal is to ensure that our statements merit unqualified opinions year after year, but, more importantly, that we do address in a very concrete and measurable way the internal controls and system controls that have traditionally plagued the agency in the past which we are addressing today to deal with them and eliminate those material weaknesses that we have. With the final implementation of our HUD 2020 management reform plan, I feel very confident that we will be able to address the remaining concerns that are addressed in the audit, Mr. Chairman.

Thank you very much.

Mr. HORN. Thank you very much.

[The prepared statement of Mr. Ramirez follows:]

**STATEMENT BEFORE THE HOUSE GOVERNMENT
REFORM COMMITTEE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY**

**WASHINGTON, DC
MARCH 22, 2000**



BY

**SAUL N. RAMIREZ, JR
DEPUTY SECRETARY**



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, DC 20410-0050

TESTIMONY OF
DEPUTY SECRETARY SAUL N. RAMIREZ, JR.
HUD'S FINANCIAL MANAGEMENT SYSTEMS

Good morning, Chairman Horn, Ranking Member Turner, and Members of the Committee. Thank you for allowing us this opportunity to testify regarding the Department's financial management systems.

First let me say that the Department's financial house is in order. HUD has received a \$26 billion dollar budget for the delivery of decent safe and sanitary housing to over 5 million American families, and we have invested those funds in sound policies and programs that have assisted homeless people, low-income families and first-time homebuyers in communities across the country.

FHA and its Mutual Mortgage Insurance (MMI) Fund are the healthiest they have been in decades. The total value of the fund stands at an all-time record high of \$16.637 billion, an increase of \$5.277 billion from the economic value as reported for FY98. The Clinton Administration's FY 2001 budget proposal has already projected over \$20 billion dollars to be returned to the Treasury by FHA from 2002 to 2006. When combined with the current economic value of \$17 billion, this amount is more than sufficient to assure the safety and soundness of FHA's \$450 billion portfolio of outstanding mortgage insurance.

The Administration is looking at whether any funds generated in excess of the amount booked in the FY 2001 budget proposal be returned to affordable housing, creating a new and permanent source of funding to serve the nation's neediest families and communities.

Building on these successes, HUD has been working very hard to improve our management controls, including our financial management systems, in order to rebuild public confidence in

our ability to administer housing funds. Last year, for the first time, HUD received an unqualified opinion on our Fiscal Year 1998 financial statements. We regarded that as a significant achievement, but we did not rest on our laurels. We proceeded with the implementation of an ambitious new financial management system called HUDCAPS which, when completed, will result in a significant consolidation of the agency's financial reporting protocols from **over 80** different systems to under 5.

We have a multi-year conversion process underway. The technical and logistical challenges that were posed by the task of transferring nearly **one trillion** transactions from our old general ledger system – known as PAS – to the new HUDCAPS system significantly complicated the task of preparing and auditing our financial statements. Each of those one billion transactions had to be converted from PAS to HUDCAPS, and the funds reported had to be reconciled with the fund balances as reported to Treasury. The audit occurred in the middle of this conversion and reconciliation process. Ultimately, HUD's Office of Inspector General informed us that it was unable to complete the task of auditing HUD's Fiscal Year 1999 financial statements by the March 1 deadline. We are continuing to work with OIG to enable a complete review of our financial statements.

Notwithstanding these difficulties, we have always been able to account for the public money. Congressional appropriations have been accounted for in the monthly and quarterly reports that we supply to the Department of the Treasury. These reports detail the dollar amounts spent on each of the Congressional appropriations administered by HUD in addressing the housing needs of America's families.

The retention of a clean audit opinion on HUD's consolidated financial statements is an annual goal we are working hard to sustain. Closely related, and of even greater importance, are the substantive efforts that are being made to correct the Department's long-standing material internal control and systems weaknesses -- weaknesses which led to the General Accounting Office's (GAO) designation of HUD as a "high risk" agency in 1994. HUD's efforts to correct

these weaknesses were recognized just last month by the GAO's David Walker, the Comptroller General, who testified before the House Budget Committee that HUD had made credible progress toward improving its management and that HUD's management team had given top priority to addressing the Department's management deficiencies.

In his Congressional testimony, Mr. Walker specifically pointed to HUD's 2020 Management Reform Plan -- with its emphasis on streamlining programs, retraining staff, reorganizing field offices, consolidating functions into specialized centers and modernizing information and financial management systems -- as a "**major contributor**" to the progress that HUD has made. Although Mr. Walker acknowledged that it is "too soon to tell" whether HUD 2020 will succeed in getting HUD off the "high risk" list, we are confident that when the reviews that GAO presently has underway are concluded, the substantive progress that HUD has made will justify its removal from the high-risk list in February of 2001.

Some of HUD's reform efforts referenced by the Comptroller General are worth noting here, particularly those related to modernizing information and financial management systems.

As the Committee is well aware, several long-standing agency weaknesses related to HUD's inability to monitor and manage our housing portfolio. We did not know exactly what properties we were funding, or how to maximize public dollars for investments and improvements to public and assisted housing. To address this, HUD developed and tested a four-part Public Housing Assessment System (PHAS), with evaluations of every Public Housing Authority's physical condition, financial soundness, management capacity, and resident satisfaction.

Through the creation of our Real Estate Assessment Center (REAC), we set out to conduct a first-ever objective, standardized physical inspection of HUD's housing portfolio. This new process replaced the public housing self-certified management assessment system as well as the Federal Housing Administration's previously sporadic monitoring attempts of assisted housing. Inspections conducted by commercial inspectors using protocols developed by HUD in concert with industry and housing experts have assessed over 40,000 public and assisted housing

properties. Over 75% of properties scored above HUD's minimum level for "decent, safety, and sanitary" housing. As a result, we now have the nation's first precise, computerized record detailing the condition of our housing stock.

We also have an unprecedented national database of complete financial statement and compliance audit information for monitoring projects and managing risks within our housing portfolio. Assessment and referral processes replace staff-intensive manual review processes that were inconsistently performed and acted upon in the past. Our new system now allows us to review each project manager's compliance with major HUD housing program requirements as well as each project's overall financial condition and risk to HUD.

As part of these assessment protocols, HUD developed a state-of-the-art Tenant Income Verification System -- a fraud prevention system that uses computer-matching technology to identify potential underreporting of tenant income and ensure that only income-qualified households receive housing subsidies. This benefits tenants and property administrators by dramatically streamlining the verification process.

Finally, as part of HUD's Homebuyer Protection Plan, we developed an assessment system that dramatically reformed the FHA appraisal process and includes computerized scoring of every new single family appraisal submitted for endorsement -- more than one million per year.

We are now in the position to perform front-end risk analyses for new housing programs; provide regulatory relief to the public and assisted housing properties that score exceptionally well on their assessments; and, target resources to those who need to elevate their delivery of decent safe and sanitary housing to our residents.

Taken together, these assessment tools have enabled the Department to better manage and invest our resources so that over 5 million American families receive better housing assistance.

The results are reflected not only in our communities, but in HUD's financial and audit reports as well. Turning our attention to the audit reports, I am pleased to report that although we

started Fiscal Year 1999 with eight material weaknesses, these assessment reforms helped us end the year with only five. For example, one material weakness -- Management and Control of Staff Resources -- was downgraded to a reportable condition. This was accomplished because HUD completed organizational changes, provided greater management accountability for achieving program and operating goals, enhanced the Management Control Program structure and activities, and increased risk-based management control techniques.

In addition, the Federal Housing Administration (FHA) accomplished significant progress in addressing its three reported material weaknesses, eliminating one and downgrading another to a management concern.

In this year's FHA audit, the material weakness relating to the FHA Resource and Asset Management Strategy has been eliminated. In addition, the real estate assessment tools I just described have enabled FHA to monitor its insured multifamily portfolio such that the material weakness related to Early Warning and Loss Prevention for FHA-Insured Mortgages was downgraded to a management concern. Only one material weakness remains open -- the FHA Federal Basis and Budgetary Reporting; even here, significant actions have been taken to account for FHA's financial commitments, such as routine procedures to analyze contracts and purchase orders as well as reviews of loan guarantee commitments and endorsements to ensure that all credit subsidy amounts have been properly recorded.

These efforts at modernizing information and financial management systems will continue. As we go forward with our consolidation of the agency's financial reporting protocols, we will also be taking concrete steps to address the disclaimer and material weaknesses cited in the Fiscal Year 1999 Audit Report.

HUD has established an Audit Resolution Committee, headed by myself, to focus on the resolution of all audit issues. This committee will provide a central point of contact for HUD senior management and the OIG to ensure audit related matters are properly communicated and monitored by both parties.

We have dedicated resources to address each and every material weakness and reportable condition cited in the Audit. Already, we are in the process of completing the HUDCAPS conversion and reconciliation process by compiling documentation to support the reconciliations. We have asked the OIG to immediately return to the task of reviewing our financial statements, complete the Fiscal Year 1999 audit, and render an opinion by June 2000.

We are hopeful that we will yet receive a clean audit on our Fiscal Year 1999 financial statements. Our goal is to ensure that our statements merit unqualified opinions year after year, and that the final implementation of the HUD 2020 Management Reform Plan will address each of the remaining material concerns.

Mr. HORN. We have three opening statements, maybe four here. Do you have one, the gentlewoman from Illinois?

Mrs. BIGGERT. I do, but if you would just include it in the record.

Mr. HORN. Mr. Turner has an opening statement. We will put it at the beginning as if read. That will save us some time.

Let me ask, we are going to go 5-minute rounds here, and that will get more questions on the table.

We are nearly halfway through the fiscal year 2000, and the question is, has the Department adequately addressed the problems that resulted in your disclaimer of opinion, Ms. Gaffney, on the fiscal year 1999 financial statements?

Ms. GAFFNEY. I am going to ask Mr. Heist, who is in charge of the financial audit, to answer that question.

Mr. HEIST. What I can say to that point, as the Deputy Secretary said, they are working hard to document what they need to do to support the reconciliation process. I can only speak to where we were when we stopped the audit. They had significant differences that were unexplained to us with respect to their reconciliations. They brought in an accounting firm to help them work through those issues; and, as they indicated, they will be making that information available for our review as we proceed with our responsibility to audit the fiscal year 2000 financial statements. We have to establish opening balances for that audit anyway, so the logical way to proceed is to finish our audit work related to fiscal year 1999.

Mr. HORN. The Deputy Secretary asked the Inspector General to extend her March 1 reporting deadline to June 2000, so she may be able to render an opinion on the Department's fiscal year 1999 financial statements. Is that true?

Mr. RAMIREZ. We didn't ask for an extension of the date. What we asked for is that they would work with us to come back by June to come out with an opinion on our 1999 financial statements, Mr. Chairman.

Mr. HORN. Moving that date would not be in compliance with the Chief Financial Officer Act of 1999. I guess I would just ask, how do you justify not meeting the statutory March 1 deadline?

Mr. RAMIREZ. We felt confident that we could have reached the March 1 deadline and had documentation that we feel could have effectively answered the major concerns that led to the disclaimer that was filed by the Inspector General and that the numbers that remained after us answering the concerns that they had specific to the amounts that they were claiming caused the disclaimer would be immaterial in accountant terms for me. A lot of money still but in accountant percentages would have dictated that it would have been an immaterial amount.

That information, unfortunately, was not reviewed before March 1 because the auditors felt that they had completed their work prior to that day, which is their prerogative certainly. Our wish would only be, as Mr. Heist has mentioned, that as they continue to work with us now to review this information and additional information to be able to effectively show what occurred when we were running the dual systems because what basically happened was we were very aggressive in trying to convert our general ledgers into the HUDCAPS system. Again, let me reiterate for the sys-

tem that this is a multi-year effort. It is an activity that is consolidating, as I mentioned, 80 systems into just a handful and creating some standardization along the way.

We ran the PAS system, which was the system that got us a clean opinion last year, at the same time. We focused the Inspector General's attention to HUDCAPS and neglected to—as equally emphasize the PAS system to track back the actual transactions. And so when it went down to this Hyperion statement that was coming out of HUDCAPS, they were unable to reconcile certain transactions that had occurred between the PAS system and the HUDCAPS system that threw off the Hyperion financial statements that came out, referring back to the chart.

We tried to address those prior to the March 1 deadline. Again, regrettably, they did not review this information at the same time because they felt that the majority of their work was complete and, as I understand, in their opinion would push them past the March 1 deadline.

I would like to just again concur and reiterate what Mr. Heist has said, that they are working to get the fund balances close for 1999 so that we can then properly account for 2000, and my only request was that we will try to get this work done before June 1. We feel very confident that we can provide the information to get this work done before June 1.

Mr. HORN. Vicky.

Ms. BATEMAN. We have not asked for an extension of the March 1 deadline because we know that is the OIG's prerogative. We have three technical issues that caused the disclaimer. What we have done at this point is obtain the supportable documentation that we need to satisfy them. We have since met with the OIG, showed them what we have done and asked them to come and work with us. What we are asking for is that they allow us to restate our 1999 statements based on the supporting detail that we have been able to adjust our cash balances with Treasury, come back now and not next year to finish the 1999 audit, and save the taxpayers money instead of repeating this next year. By June—initially, they said it would be 6 to 8 weeks to complete the audit. We are saying, come back now, we are ready for you. Let us restate the 1999 and render an opinion as part of your 2000 audit and let's move on.

Mr. RAMIREZ. By way of introduction, Mr. Chairman, this is Victoria Bateman. She is the comptroller for FHA.

FHA did garner a clean opinion from the Inspector General's books. When this issue came up 2 weeks out of the March 1 deadline that was brought to my attention by the CFO's office, I put together a team to address it as expeditiously as possible, and Ms. Bateman has been leading that team for me to clear up these specific issues as they relate to what led to a disclaimer, sir.

Mr. HORN. On my sheet here it says Victoria Bateman, Acting Chief Financial Officer.

Mr. RAMIREZ. That is not correct, sir. Dave Gibbons is the Deputy CFO. We have over the last year aggressively tried to recruit a CFO candidate and twice we have been at the point of making offers only to be countered on both offers by the private sector for substantially more money to both candidates and as a result lost the opportunity to hire them. We are aggressively seeking to hire

our CFO and working to get a candidate that would meet also with the pleasure of the Senate committee that would confirm the nomination for CFO.

Mr. HORN. Will that CFO be exclusively in the position of CFO or is he or she going to be doing other things?

Mr. RAMIREZ. No, exclusively CFO.

Mr. HORN. Mr. Turner, you have 8 minutes. I went over, but I wanted to finish that up.

Mr. TURNER. Ms. Gaffney, since HUD was placed on the high-risk list back in 1994, is it fair to say that HUD has made significant progress in getting its financial house in order?

Ms. GAFFNEY. What I think is fair to say is that HUD has recognized its areas of systemic weakness to a degree that it never did before and that, in each of these areas, it has plans in place, and activities under way to address the problems; and I think what you are hearing is this situation, this disclaimer of opinion resulted from HUD trying to correct one of its systemic weaknesses. So that is a good thing. But we are not at the end of any of these processes. We are not to the point where we can say the corrective actions have been taken.

Mr. TURNER. So what you are saying is that the problem that resulted in your failure to be able to issue an opinion by March 1, that problem was created by the fact that they are converting this payment system, which is a good thing?

Ms. GAFFNEY. Exactly. It is unfortunate the implementation didn't go smoother, but you have to recognize that this was an attempt to solve a problem that we have been identifying for years.

Mr. TURNER. OK. So we missed a deadline because we were trying to correct a problem that everyone agreed needed to be corrected?

Ms. GAFFNEY. Correct.

Mr. TURNER. I have heard a little conversation about the failure to meet the deadline. It seems that we may be making too much of that, even though it is statutory. If I understand the sequence of events, we basically had a week before the March 1 deadline when you gave HUD notice that you didn't think that you were going to be able to issue an opinion, and they tried to get all of the things together you needed, and yet time was running out, and you didn't take those things into account, and you ended up passing the March 1 deadline unable to issue an unqualified opinion. Is it fair to say that we shouldn't make too much of what went on during that period of time with regard to the failure to meet the March 1 deadline? This doesn't represent any severe financial problem that is in question that has resulted in the failure to meet the March 1 deadline, it is a matter of basically communication and the furnishing of adequate information?

Ms. GAFFNEY. No, I don't agree with that. I don't mean to repeat myself, Mr. Turner. I don't know if you were here for my opening statement. What I agree with you about is we are all making too much out of the opinion on the audit on the financial statements.

I think we are attributing to the opinion, the unqualified opinion, the disclaimer of opinion, the adverse opinion, importance that is not warranted.

Given that, my plea to you today is, let's look at the more important stuff. We should be concerned about getting that general ledger implemented, and we should be doing everything to help HUD get it implemented. And if HUD gets a disclaimer of opinion in the process, so what? The problem is that the opinion is being used as the sole measurement.

With respect to the March 1 deadline, you know, we worked on this audit since June—June through February. We devoted 20 staff years to this audit. At some point, the preoccupation and the focus of resources on the financial statements and the audit I think becomes counterproductive. We should be trying to get the real stuff done.

Mr. TURNER. I think we all understood the point you made, and I think there is probably general agreement that the emphasis should be on a broader range of issues, including internal control, which is what they were trying to address in implementing the HUDCAPS system.

The only point I was trying to make is that the dispute over whether or not the data was provided by March 1 and whether or not you got the opinion done by March 1 is not a reflection of any severe financial problem. It is more of an internal thing between you and HUD that perhaps will now be resolved by June 1, as I understand it. And so I don't want there to be a misimpression that somehow HUD has a severe financial problem simply because that March 1 deadline was not an unqualified opinion, was not reached or given by you by March 1. I don't think that is what you intended for that action to say.

Ms. GAFFNEY. HUD did not have the financial statements in shape and we didn't have a chance to finish our audit of them by March 1. I am convinced that, as Mr. Ramirez and Ms. Bateman have said, that by June that undoubtedly will take place. Which is not to say that HUD doesn't have serious financial management problems, but I agree that they will be able to do that.

Mr. TURNER. I think that is important for us all to understand.

With regard to your criticism of the emphasis on the financial audit, I am not sure what the answer to that is, other than what you just said, and that is for us to think about the broader range of issues that we should be concerned about.

The law does say we have got the March 1 deadline. You do it every year. It is something we all look to. I think as a committee we certainly can be sensitive to the fact that we shouldn't make too much of that process, but it is statutory and it is important to try to meet the deadline.

Mr. Chairman, I have no further questions.

Mr. RAMIREZ. May I?

Mr. HORN. Yes, please.

Mr. RAMIREZ. In our efforts—and I can appreciate the Inspector General's overall emphasis on condition, entire condition of the agency, but the measuring stick is the financial audit and the condition of the report that comes out from this audit.

As we were getting close to this deadline—and, yes, the work did start in June. It came down out of these trillion transactions that we did a year that we transferred and ran simultaneously. And, again, shame on us for not focusing the IG on both systems during

that period and just on HUDCAPS, that it came down to three transactions and we were prepared to explain those three transactions prior to that March 1 deadline.

Apparently, there was a great deal of work that had already gone into preparing this audit that the Inspector General had done; and, yes, they did invest 20 man years to this audit; but we did work with them to adjust for their vacation schedules during the holidays and other periods that were critical coming into the closure of this audit to try to get to a resolution in this regard. That is behind us, and we accept that, and we appreciate the acknowledgment from the Inspector General to resolve the issue by June if not sooner. We believe we can do it sooner and with their help and cooperation we feel very confident that we will be able to report back together to this committee and the Nation as a whole as to an accurate read of our financial condition.

But I would like to also quickly state that, in addition to our financial statement and perhaps coming out with a clean opinion prior to this June date from 1999, that we still have internal controls and system weaknesses that we are addressing to try to resolve and these have been weaknesses that have been systemic over the last 2 decades. And so old habits are hard to break, but we are breaking them. It is clearly indicated by many of these weaknesses or several of these weaknesses, to be more accurate, that have already been downgraded by the Inspector General to just management concerns for the Department.

Mr. TURNER. Well, I appreciate those remarks and I think it is probably incumbent upon this committee to continue to encourage the IG and the agency to meet the March 1 deadline. I agree that audit report is looked to as a significant indicator of your financial standing. But I gather from the interchange that we have had this morning that the fact that it was not issued by that date did not reflect any significant financial difficulties within the agency but rather reflected the fact that you are in the midst of this conversion and it created some problems between the two offices that apparently for whatever reason, it didn't happen and you are going to do it and we would urge you next year to try to meet the deadline.

Mr. RAMIREZ. Just to quickly wrap that up, and thank you very much for those comments, Congressman Turner, we are already preparing to start generating not an annual report but quarterly reports so that we can better work together to assess the financial conditions of the agency and we are quickly getting to that particular point.

I would like to just conclude by again reassuring this committee and the taxpayers that we know better than ever at the Department where our money was spent and are prepared to provide any auditor the audit trail of how the bulk of our resources were spent there at the Department of Housing and Urban Development.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. HORN. Let me pursue some of these fiscal matters.

Was Mr. Gibbons in charge of clearing this particular audit?

Mr. RAMIREZ. The financial management of the organization under the CFO's operation has several points, but he was responsible for shepherding the entire effort from the different divisions

that are responsible for compiling the information that the Inspector General needs in order to conduct an audit.

Mr. HORN. What was his title at this point?

Mr. RAMIREZ. Deputy Chief—Deputy Financial Officer and acting in essence Financial Officer because of the vacancy.

Mr. HORN. Was he able to give full attention to that?

Mr. RAMIREZ. Yes. He was giving his full attention. We were focusing on material weaknesses ironically and the period of discussions with the auditors between June and their disclaimer in March, and as a result a great deal of our effort went into trying to resolve those material weaknesses and management concerns that were in our previous audits. It didn't focus—

Mr. HORN. Was he on vacation during this time and was that why the whole thing was late?

Mr. RAMIREZ. No. When Mr. Gibbons left the country for a couple of weeks and it was—it was the 2 weeks before this was completed, the Inspector General's auditing team and our team had been meeting on a weekly basis. Prior to that they had been meeting on a biweekly basis. It was his impression as a result of the last biweekly and checking with his staff primarily and getting a general indication of the different activities that the Inspector General had been focusing their work on till prior to the week before that we were in sound condition. That does not, though, excuse the fact that we did not do as good an effort of focusing the Inspector General's attention on both our HUDCAPS and PAS system at the same time, Mr. Chairman.

Mr. HORN. In implementing the new system, why didn't you consider the need for a backup plan to ensure that you could produce all of the reliable financial statements?

Mr. RAMIREZ. We did, sir, and that was the PAS system. We ran concurrent systems.

Mr. HORN. And did that satisfy you, Inspector General?

Mr. RAMIREZ. It is unusual but in defense of the Inspector General we focused their attention on the HUDCAPS system and general ledger as the principal source of documents and amounts for their audit work and did not refer them back to the PAS system as—

Mr. HORN. That is the system used in 1999?

Mr. RAMIREZ. It got us a clean opinion. If we said don't look at HUDCAPS because we are going to conversion, look at PAS, I think we would have been in better condition. All of the Treasury reports came back fine through our PAS system.

Mr. HORN. Mr. Hsiao.

Mr. HSIAO. My name is Ben Hsiao, Director of the Information Systems at HUD OIG, and I have been reviewing and looking at HUDCAPS for a number of years for the financial statement audit.

I want to clarify something. HUDCAPS is kind of like LOCCS but it pays for another set of programs besides the grants, it pays the Section 8, what they call the voucher program, which is essentially payments to the housing authorities. That system was envisioned to be the general ledger. That decision was made a year and a half or 2 years ago back in 1997. They never envisioned that PAS would go away, but they would translate all of the numbers in PAS into HUDCAPS. One of the difficulties they had was that PAS data

did not contain the source year along with a bunch of other variations, which by the way we are going to look at in depth to make sure and figure out why this conversion went awry.

The conversion was very problematic. And in the interface between PAS and HUDCAPS they were rejecting transactions hundreds a day. They finally got it working somewhat, but as I understand it, it is still problematic and we have to work on it. In fact, I was informed yesterday that we plan to do extensive work on this so we can come up with recommendations to correct the problems in HUDCAPS. There are lots and lots of problems. Many are technical, but it has not been an easy implementation. There are a lot of difficulties, many of which I think can be overcome but it takes management effort and it takes a tremendous effort on the part of the CFO and CIO and the IT.

I want to set the record straight that HUDCAPS is not the only system. PAS has always been there, but translating the data was the major problem in not producing a financial statement.

Mr. HORN. The Inspector General testified the most critical need faced by HUD in improving its internal controls is to complete development of adequate financial systems.

Mr. HSIAO. Absolutely.

Mr. HORN. Mr. Ramirez, when do we expect those systems to be in place and operating properly?

Mr. RAMIREZ. I don't disagree, it is a complex, messy process when you have to convert 80 some odd systems into a handful of systems and a trillion transactions a year and I challenge anybody who has a checkbook which has a trillion transactions that does not have to go through an in-depth trial and error. The important thing to note is that the PAS system was accounting for our resources. We did not go into this first phase of major conversion, and I think the Inspector General would agree that this was the first major conversion into HUDCAPS, without making sure that we kept track of the resources that we are appropriated to administer.

I would say that in our HUDCAPS effort, I would venture to say that we will be well in control of the HUDCAPS operation and conversion within the next 18 months or so. We are looking forward to the work that the Inspector General, in particular Ben here was a great computer technician, to get their advice and recommendations as we move through this process, sir.

Mr. HORN. I am glad to see your optimism on that, but Ms. Gaffney reported that the HUDCAPS does not fully comply with the Federal financial system requirements. Will the Inspector General elaborate on what she means by that?

Ms. GAFFNEY. HUDCAPS does not comply. The easiest example is that FHA and GNMA are supposed to be feeding summary data into HUDCAPS on a monthly basis. FHA, because of problems that it had in its own system inputs their data into HUDCAPS only once, and that was after the close of the fiscal year. Obviously one of the government financial system standards is that you have accurate, timely information. In this case the failure to post into HUDCAPS meant that there was no such information.

Ms. BATEMAN. Mr. Chairman, as the FHA Comptroller at the time, the IG is correct. FHA did not supply its data by year end

close. I was very concerned at that point with the conversion of HUDCAPS, and I was aware of the fund balance of Treasury reconciliations. I didn't want to take my data and put it into HUDCAPS and risk FHA getting an unclear opinion. We put a corrective action plan in place to make the general ledger good within the next 12 months. We are working to get the summary data, we have dedicated resources to get files out of the FHA legacy systems and treat it at summary level into HUDCAPS.

Keep in mind, FHA is a subsidiary of HUD, a very large subsidiary of HUD, and we have a commercial package and we have to do Federal reporting at this point. I am summarizing that data at a very high level because you don't want a million transactions going into your general ledger, which is HUDCAPS.

In order to get through the audits I want to make sure that FHA has a clean opinion and not make the conversion from PAS to HUDCAPS even worse. We thought we made a good decision not to put more data into HUDCAPS. But we do have auditable data going from the HUDCAPS back to FHA. It is supportable and auditable. KPMG tells you it is a clean opinion.

The real issue came down to when we converted from PAS to HUDCAPS, we took those trillion transactions and put it in. We knew that we couldn't get any reporting out HUDCAPS, it is a brand new system. We didn't get the reports that we needed to reconcile to Treasury. We are now getting those reports and we are able to support the 224s and reporting to Treasury, and we have invited the IG to come back in and work with us to get the clean opinion.

But Ben is right, we have more issues than just this conversion. The IG pointed out three reasons that they had disclaimer. They were right. We acknowledge that we have these problems. We made a lot of adjustments to Hyperion outside the system. Shame on us for doing that. It is lessons learned.

I think the IG has been very gracious to work with us instead of waiting a whole year. But there are internal control issues. We have stopped all system conversions based on the IG's recommendation. The Deputy Secretary has tasked me to make sure that we have the controls in place before we do any more conversions. So our No. 1 priority is to get auditable to get to the clean opinion, let's take our time and do it right. Look at the cost of doing this, and the last thing I want to do is put FHA detail into HUDCAPS, a million transactions a day.

Mr. HORN. We thank you for that perspective. We have a vote on the floor now. We are delighted to see the gentlewoman from New York. You are free to use all of the time you wish on questioning while we are going over to vote and we will keep the door open for you.

Mrs. MALONEY [presiding]. Thank you very much, Mr. Chairman. I thank you for your persistent and ongoing commitment to better financial management not only in HUD but all financial agencies. I have been watching the progress at HUD from my position on the subcommittee and on the Banking Committee as well, and I have been particularly interested in some of the strides made under Secretary Cuomo not only because he is a fellow New Yorker from my State but because he has set out to tackle what seems to be an im-

possible task improving HUD's management and organization and by most accounts these efforts are well on their way to success.

Like many of my colleagues, I am especially pleased last year when HUD received its first ever clean audit and all of us know HUD has a history of mismanagement, so the fact that HUD did receive a clean audit is really noteworthy and I would like to ask Mr. Ramirez, do you expect to receive a clean audit for this fiscal year in the near future when it is completed?

Mr. RAMIREZ. We believe that we have the supporting documentation that upon review by the Inspector General will in all probability lead us to a reflection of sound financial condition and a clean opinion on their part. We will work with them to be able to justify our reasons as to why, and so we feel very comfort about that.

Mrs. MALONEY. Well, an issue I am very interested in, and I know that the chairman is as well, is how we can help the government operate more efficiently by making sure that the right people get the right benefits. I understand that HUD is taking steps in this direction by implementing a nationwide income verification program so that tenants pay their fair share of rent. Could you discuss what HUD is attempting to accomplish with this effort, and what sort of progress you have made?

Mr. RAMIREZ. We have made substantial progress in that area, and it has been one of the major weaknesses that has been highlighted by the Inspector General in their reports. Based on a sampling of approximately 1,000 residents, they compute and trend out an amount of potential lost revenues as a result of underpayments.

We have now modernized our income verification process by linking with Social Security and IRS to get information on residents, and when there is a discrepancy, an \$8,000 discrepancy on the public housing side or a \$4,000 discrepancy on the multifamily side, the resident receives a letter or will be receiving a letter as soon as we send them out to go back to their respective landlord or housing authority to recertify their income. We have done a \$4 million-plus survey of that information out of our new system and we have found it to be very effective and impacted residents about 280,000, or so we estimate.

We are working with the industry quite closely, as well as resident groups to make sure that the notice that goes out is crafted in such a way that it would encourage individuals to go back and get their incomes recertified but at the same time not make it one that would be in essence the gotcha game. We feel by doing this we will greatly enhance our estimate of underpayments and to some smaller degree overpayments that actually occur within our system and better narrow that estimate which has been put out by the Inspector General of close to in some instances \$900 million-plus.

Mrs. MALONEY. I am going to give two more questions and at the completion of them the hearing would stand in recess and then I am going to dash to vote.

I am interested and you may have already answered this, but I am interested in the fact that GAO has listed all of HUD's programs on its high risk list. Do we have anybody here from GAO?

Ms. GAFFNEY. No.

Mrs. MALONEY. What progress is HUD making to address the specific problems that were raised in the GAO report that they brought up?

I am also very interested in what is your followup in inspecting properties which receive financial assistance from HUD in making sure that those dollars are allocated properly and spent properly?

Those two questions and I would like them in the record. I may have to dash because I walk slower than the chairman, and he has already left. Answer those two questions.

Mr. RAMIREZ. For the record what we have done with GAO have worked closely in establishing a working protocol which has been very effective in trying to address not just prior audits and recommendations that they made but current audits that they have initiated. Mr. Walker, the Comptroller, has stated here before Congress that we have made considerable progress. On our continuing relationship with him we feel very comfortable with the work we are doing that by January 2001 that we will be prepared to have GAO make a recommendation that HUD as an agency be taken off the high risk list.

On our inspection protocols, we have for the first time gone out and assessed the physical condition of our entire portfolio, over 40,000-plus properties. We are currently assessing all of their financial statements to make sure that finances are in order and that they are sound.

Third, taking into consideration the residents alone as well as the condition and circumstances that they live in, and for the first time we can accurately assess the physical, financial, and also resident approval of our properties.

So thank you very much for those questions, Congresswoman.

Mrs. MALONEY. You are in recess until the chairman returns.

[Recess.]

Mr. HORN [presiding]. The recess is over and we will continue the questioning.

I want to ask just one question of the Inspector General. Given this late date, wouldn't it be more productive for your office to focus its resources on the fiscal year 2000 audit?

Ms. GAFFNEY. We are going to focus our efforts on the fiscal year 2000 audit. However, we need opening balances for fiscal year 2000, which means they need to do the reconciliation work that they are talking about and we will need to look at that work. But our work will be in the context of the fiscal year 2000 audit.

Mr. HORN. I think we are a little unclear as to whether you are going to issue an opinion on the fiscal year 1999 financial statements in June?

Ms. GAFFNEY. We have not made that decision. Certainly that is the request that HUD is making. We haven't made that decision.

Mr. HEIST. One of our options, since HUD in fiscal year 2000 will also be reporting on 1999 and including comparative financial statements, we could change our opinion when we issue the report for fiscal year 2000. That is one of our options.

Ms. GAFFNEY. To go back to our position, what we should not be doing is diverting time and energy from our 2000 audit at this point.

Mr. HORN. I yield 10 minutes to Mr. Ose and if he needs more, we will give him another 10.

Mr. OSE. Mr. Chairman, thank you. Procedurally, if I understand correctly, we had an audit and an opinion expressed on that audit in previous years to the current year, and what I am trying to figure out is for some reason we have not been able to get to a similar point on the current year that would otherwise comply with the reporting date requirement with the CFO act. That is some opinion as to the financial condition of the agency issued on or before March 1; am I correct on that? Were we able to achieve that goal last year?

Ms. GAFFNEY. Yes.

Mr. OSE. I have read the testimony and I can't pick out what happened? Why are we unable to issue an audit or an opinion on the audit? Is it because the audit is not completed?

Ms. GAFFNEY. The financial statements were not completed; therefore, the audit was not completed. The answer to your question is HUD tried something new in 1999. They tried to overcome a weakness and implemented this new HUDCAPS system and that created a whole new set of difficulties for HUD that they had not experienced the previous year.

Mr. OSE. From a processing side?

Ms. GAFFNEY. Right.

Mr. OSE. That is the reference to the trillion transactions?

Ms. GAFFNEY. Right.

Mr. OSE. Well, I must say—I am at least partially entertained by the—

Ms. GAFFNEY. Irony, right?

Mr. OSE [continuing]. The consequence of an agency not responding to a statutory requirement laid out by the Congress. Are there sanctions, Mr. Chairman, to such a failure? I mean, I—

Mr. HORN. Well, the sanction we try to think is the law, and that has not been obeyed in several administration areas because they have made the Chief Financial Officer, say the Assistant Secretary for Management and Treasury sort of subsumes everything, the CIO, CFO. That wasn't the intent of the Republicans or Democrats. Those are full-time jobs, 18 hours a day, if you are doing it right. That is where some of the mess has been, is they haven't focused on it within their own administration.

Mr. OSE. In a situation like we are confronted with today, which is we don't have all the balances on which to move forward, in that situation recognizing what the law is, what are Congress's—I guess I should ask—

Mr. HORN. If you think they are really playing games, you shorten the amount of appropriations granted. That is not a new task. For example, when the Federal Elections Commission was given \$3 million to get their computers moving because they weren't able to respond to thousands of people with the press and candidates, they completely violated what Congress had specified. Needless to say, they took a whack out of that budget the next year. That is your one penalty when you think one agency is messing around and thumbing their nose at Congress.

Mr. OSE. The concern that I have is if the agency directed to perform this audit, whether that be the Office of the Inspector General

or the HUD itself, is not in compliance to the statutory requirement for whatever reason, I would think that they would have come back to us and asked for additional resources or assistance to expedite solving that problem.

My question would be: Has such a request been received from the administration or any of these—particularly HUD in this case—any of the agencies that are so affected?

Mr. HORN. I am unaware of any but if you are a cabinet officer or a Deputy Secretary who is here today, you have to reprogram money at the end of the year. And if you are serious about this, you move some of that reprogrammed money—

Mr. OSE. Discretionary money?

Mr. HORN. Absolutely. When Dr. Raines came in as Director of OMB, I told him what we had been urging the cabinet to do, reprogram it; and he said I agree with you. That is how Y2K was dealt with so they didn't have to spin their wheels for 1 year between the budget office in the executive branch and the legislative branch.

Ms. GAFFNEY. Mr. Chairman, there was a brief discussion when you were asking questions about who was the acting CFO. In point of fact, Mr. Gibbons was our point of contact for this audit. He was the acting CFO. I have known Dave Gibbons for a long time, and I have enormous respect for him. But he is not an accountant. He doesn't know accounting. He is a budget person. He worked in OMB for many years. So, Mr. Gibbons was very ill equipped to deal with this situation.

If you want to know how I think the Congress should help; Mr. Ramirez has said it is now a year since they have had a qualified CFO in place and my bet is everyone is now saying it is too late in this administration, we are going to give up on it for—how long do we have to go, 10 months?

Mr. HORN. You are right about that. I happened to have joined an administration in the last year and a half and it is almost impossible to get people.

Mr. OSE. Let me explore that a little bit. Let me digress first. Is it you, Mr. Ramirez, or whomever, who would I ask the question of, has the agency asked for additional resources from Congress in order to address this problem?

Mr. RAMIREZ. No, we haven't but we have utilized the discretion that the chairman alluded to that was talked about when Dr. Raines was head of OMB and we have redirected resources to remediate the matter.

Prior to that there has been talk about us hiring an accounting firm to come in last year to help us get a clean audit. Their sole purpose was not to help us get a clean audit but to help us clean up the data to be able to get a clean audit.

Mr. OSE. That was the Hyperion people?

Mr. RAMIREZ. No, that was Arthur Andersen.

What we have done is, taking into account what led to us being classified as a high risk agency, was that over the last two decades, approximately 80 systems, accounting systems, were built within the Department and there was little communication between these systems. Three and a half years ago or so, a little less than that, we took the position that our effort was to consolidate these sys-

tems into a handful of systems that could talk to each other and could better account for our resources. We have made significant progress, but we have not completed the task. There is still internal controls that need to be dealt with.

This year, and the reason that there was a disclaimer filed by the Inspector General on March 1, and I need to remind the committee members, although I don't think you need reminding, this was reduced by 30 days from last year's deadline as well. What we did this year was we went through a significant conversion, ran dual systems during this conversion but focused primarily our attention as it related to the audit that was being done on the financial piece. Let me say that was the only piece that led to a disclaimer. All of their other work has been done.

So again, our hope is as a result of that, and that being the only piece, we are prepared to move ahead with the Inspector General to clear up the 1999 finances. We know where the dollars were spent, we can show them where they were spent, and we are prepared to do that. We would hope that it would be sooner than June that we could come to terms. They have indicated back to us that it will take them approximately 6 weeks to review this one last piece of information, and that is fine because I can appreciate their efforts primarily being focused, as the chairman has said, on their 2000 audit but we will also in order to facilitate the 2000 audit work which actually technically does not start for them until June any way to come in here, is that we will now have quarterly reports that in the past were not being generated that can help facilitate and deal with whatever workload they may have.

We are looking forward to working that through, but to get back to your specific question, we did not see a need to come to Congress for additional resources. We appreciate the discretion that was allowed to us based on the leadership of the chairman to allow us to dedicate the necessary resources to be able to resolve the issues that were highlighted as the reasons for the disclaimer in our financial statements.

Ms. BATEMAN. Keep in mind that we don't agree with the disclaimer. We felt as if we had the resources and the statements were prepared, and we were ready to address their concerns. And that February 21, the OIG said they had to issue an opinion by March 1. We felt that we had the supportable detail to refute the disclaimer. We felt that if we did do as Congress mandated, which was prepare the statements and be subject to the audit.

Mr. OSE. You mentioned that 3½ years ago, Mr. Ramirez, you undertook the—started the effort to allow this system, the new system to come into place?

Mr. RAMIREZ. No. Our efforts are capitalized in our HUD 2020 reform. They are a comprehensive effort to deal with not just the financial systems, which are a weakness that had been outlined for years as a material weakness in the Department, but also dealt with a more comprehensive approach to solving other weaknesses like management and—

Mr. OSE. When did that program become initiated?

Mr. RAMIREZ. We went through approximately 12 months of setting up the system.

Mr. OSE. Beginning in?

Mr. RAMIREZ. Beginning in 1997. We went through a full cycle of our 2020 structure in place already for a year. We are into the second year of a full—of now the second year of a cycle of our management structure in place to deal with the specific concerns. In fact, Mr. Walker from GAO has alluded to the fact that our staffing, our structure, and our placing of staff have led us to make credible progress in getting us off the high risk list and is no longer an issue as it related to us getting on the high risk initially.

We still have more work to do, don't misunderstand me, Congressman, and we are working quite diligently to get it done. But we, and I say it in all candor as the Deputy Secretary, our financial house isn't where it needs to be, but it is in the best condition it has ever been in the history of our Department and us going from an agency that basically went out there and built boutique systems of accounting that couldn't talk to each other to consolidating them now to an effective accounting system to deal with a full financial integration of our Department.

Mr. OSE. Let me just share with you the difficulty I have here.

Mr. RAMIREZ. Yes, sir.

Mr. OSE. Fifteen months ago I was on the private side. Now I have the privilege of serving here in Congress. My affairs continue. If I can't get an opinion from my auditor or a clean set of books then I have to stay in Sacramento and fix my business. I cannot come back here and do the job that I was elected to do, and believe me, this weekend was not a lot of fun at my house in Sacramento. Unless we can solve this problem, unless we can get a clean opinion, Congress has no evidentiary basis on which to make decisions related to the funding that you all are requesting of us.

Mr. RAMIREZ. Let me reassure you, and if you look at the audit and the substance outside of the actual reconciliation with Treasury, which was the item that led to this disclaimer that our financial house is in order. The biggest operator within the Department is FHA. FHA got its own independent audit that came out with a clean opinion. We still have material weaknesses within FHA but I am happy to note that the Inspector General withdrew one completely, downgraded another one, and we are working diligently to solve the third within FHA.

Within our overall accounting system what we have been able to do is that we believe that the disclaimer that was issued on March 1, recognizing the statutory requirement primarily placed on the Inspector General to produce this audit, caused us to not work with the Inspector General over the last week because that was when this particular issue was raised to management as an issue that would lead to a disclaimer within our financial statements to clear up the concerns that they had. And out of the trillion transactions it came down to three, and we were prepared to document those three transactions to show that it did not produce a materiality to cause a disclaimer to take place. That did not occur and that is behind us.

Mr. OSE. Does the Office of Inspector General agree with that?

Ms. KUHL-INCLAN. We respectfully disagree with that, sir. It wasn't just an issue of a fund balance with Treasury. It first began that any good business has a general ledger that you can depend on. And so when you process these transactions that flow through

PAS, the 1 trillion transactions, and so many are rejected on a day-to-day basis, we had to be comfortable with why those transactions were being rejected. That was the one thing that we were trying to get the Department to do and for us to understand the reason for the rejection.

The next issue was the fund balance with Treasury. If you don't reconcile your cash balances on a monthly or even quarterly basis, then you don't know where you stand. That is good business sense. That was not being done.

The third issue, when you prepare financial statements, they must be based on the general ledger. They had some 264 entries that didn't go through the general ledger. That was over \$60 billion worth of entries that didn't go through the general ledger. We cannot rely on financial statements where the general ledger is not the source document.

Mr. OSE. You are referring to Ms. Gaffney's written testimony on page 4 as it relates to the adjustments to the general ledger?

Ms. KUHL-INCLAN. Exactly. You can't run those adjustments outside of the general ledger. We didn't know what the adjustments meant, nor did we have the proof to show the documentation for those entries. Any good business runs on a general ledger. And then we had the issue of material weaknesses. The material weakness and reportable conditions have not really changed. Some have been downgraded, some have been upgraded, but there has been no change since we started in 1991.

The issue of resource management, yes, we took it off. That is why you have problems monitoring your multi-family portfolio. It became an issue why these material weaknesses are occurring versus standing alone analyzing your basic resources. We have not really altered our opinion or our ideas about what are material weaknesses and reportable conditions since we began the audit. Those conditions still remain. There have been some changes, yes.

Mr. OSE. I want to make sure that I understand you correctly. These are material weaknesses that were pointed out in 1991?

Ms. KUHL-INCLAN. Yes.

Ms. GAFFNEY. Yes.

Ms. KUHL-INCLAN. Some are more serious than others. But that group of reportable conditions has basically been in effect since we started doing the audit. There has not been any significant change.

Mr. OSE. So we still suffer those same material weaknesses in the opinion of the Inspector General?

Ms. KUHL-INCLAN. Yes, sir.

Mr. OSE. Mr. Ramirez.

Mr. RAMIREZ. First, let me address the issue of 200-some odd entries that were made. We made it clear at the hearing that this was a conversion year. All of those 200 entries were specifically related to conversion. If they would have just audited the PAS system, which was the one that got us a clean opinion last year, we would probably have gotten a clean opinion this year.

Ms. KUHL-INCLAN. But that is not the general ledger.

Mr. RAMIREZ. They didn't, and that is where the supporting documentation is to the HUDCAPS. We were prepared prior to March 1 on the \$63 billion that she is talking about that were material

were two entries that we had the supporting document prior to March 1 that they refused to receive until after March 1.

Mr. HSIAO. From a systems perspective, last year they had a little program called CRS which really summarizes PAS data into a financial statement. That is real key. You can't get information, that is why we have Hyperion. These systems are old. You and I, even me with my knowledge and my experience, it would be very difficult to get any data out of it. You need a set of essentially COBOL programmers to get anything out of it.

Mr. OSE. We did COBOL when I was in college. Seriously?

Ms. GAFFNEY. Yes.

Mr. HSIAO. This is over 20-plus years old. That is very difficult to get data. That is why they had these reporting systems so you can easily produce the financial statements. It is not easy to go in and produce financial statements from PAS. CRS—when they converted, CRS did not work. They did not produce financial statements from PAS into CRS, it went straight to HUDCAPS, converted and then went to Hyperion, and that is how the financial statement gets produced.

Mr. OSE. Mr. Chairman, if I might, I am trying to approach this methodically and I think the first question I might ask, and unfortunately I am not sure that we will get an answer here, is that from 1991 to the present we have had no apparent change in the material weaknesses. Now, if I understand correctly, perhaps the CRS system did not lend us the information to create the solutions by virtue of its antiquated nature but the reality is that this has been every year tolerated.

Ms. GAFFNEY. Right.

Mr. OSE. I don't understand why we tolerate it. Mr. Ramirez is the Deputy Secretary, who is the Deputy of HUD. Why is it that we are not doing anything about this? Why does it take us 8 years to address these material weaknesses that we kicked up by virtue of the good work previous Congresses did.

Ms. GAFFNEY. You know what I am going to say.

Mr. HORN. Have any problems come in terms of corruption, pilfering, and embezzlement because of that general ledger being so useless?

Ms. GAFFNEY. I have no evidence of that.

Mr. HORN. You have no evidence of that, OK. Because that is a field day for anyone who figures gee, they will never figure these books out.

Ms. GAFFNEY. Right. I would like to answer you by saying what is remarkable is the guts of what is wrong is the material weaknesses. HUD has plans, HUD always has plans to correct material weaknesses, but the problem in the government, generally, is nobody talks about the material weaknesses. They talk about the unqualified audit opinion and what is happening is agencies are jury rigging financial statements and getting unqualified opinions, and then that is the end of the story. If you got an unqualified opinion, you are a success. It is really very problematic.

Mr. HORN. You are telling me the corporate culture rests on what, on simply saying you have an unqualified opinion?

Ms. GAFFNEY. That's it. You get an unqualified opinion and you are a success, so agencies will do anything to get an unqualified

opinion. And it actually doesn't take that much. All you have to do is hire a bunch of consultants from accounting firms, have them jerry-rig financial statements, take enough time to do it and have them audited, and you will get an unqualified opinion no matter what your material weaknesses are.

Mr. HORN. I can guarantee you that the Federal Government and the California State government, which is the second largest entity in this country in government, they have old timers for years that balanced the numbers and they plugged in a little number here and there and somehow they all balanced.

Ms. GAFFNEY. Right.

Mr. RAMIREZ. I would counter by saying that the accounting expertise that we brought in was to clear up a system that had been sorely lacking improvement for years. We are taking the most aggressive stand ever to do that and I would venture to say that the very same kind of experts and consultants that the Inspector General hired to do the audit for FHA did not jerry-rig any numbers to come out with a clean opinion for FHA.

So these are the top five financial accounting firms in this country that do primarily the work for the Federal Government and the reason that we hired them was not to do our financial statements but to get to the heart of what we believe is the problem, and I think the Inspector General would concur, which is that the data that was in those systems needed to be cleaned up in order for it to be quality accounted for and booked. I would say that all financial statements, corporate or government, should seek and strive for a clean opinion because that truly is the benchmark of what we want to do. As equally important is to take into consideration and implement those recommendations that are made by auditors even when they issue clean opinions to deal with weaknesses that they have found in your systems. We are convinced that the disclaimer issued was issued because of a timing concern and the lack of effort of review to deal with the three items out of a trillion by the Inspector General.

That is behind us, Mr. Chairman. I believe in working productively and proactively to resolve our differences and our issues. I am looking forward to hopefully resolving sooner than the 6 weeks that the Inspector General has indicated to us it will take them to review these specific items that they mentioned as a disclaimer to come back to you and quality report the financial condition of our finances.

And finally, let me just say that I would ask the Congressman to look at the substance of the entire financial report that was prepared by the Inspector General because she is correct, although we focus on a clean opinion, there is a lot of good material that still highlights our weaknesses but also captures the strengths that have come into being as a result of our efforts, and we want to work collaboratively to resolve these issues that are before you at this time, Mr. Chairman.

Mr. HORN. Has the Department looked at an off the shelf general ledger in updating itself? What do your consultants say?

Mr. RAMIREZ. What we have had again, the dynamics of the problem that was a material weakness even before Inspector General Gaffney came in as Inspector General and it is Secretary An-

drew Cuomo from New York, the Secretary of Housing and Urban Development, and those weaknesses when Jack Kemp was there, and in fact were trying to be resolved as a result of the debacle that was had by the leadership of Samuel Pierce that led to the scandals in the eighties.

To bring a little history to that, that is when we had these different systems that weren't talking to each other. We felt it important to get to what the IG was recommending, what GAO is recommending as well, that we integrate our financial systems. We are striving for that. What led to the disclaimer, as the Inspector General has stated before this committee, is that as a result of us trying to do something right and being caught in a time-consuming difficult conversion but yet running a parallel system to make sure. As the Congressman has said and quite correctly, that if we can't show you how we spent our money we should not be getting money, we are prepared to show you how and where we spent our money. It didn't get into the general ledger HUDCAPS, as was mentioned earlier by the Inspector General, and that is correct, too. But what we were saying is that when this issue was brought up and this was an issue that led to her coming out with saying that there would be a disclaimer came to our attention a week before the March 1 deadline. By the next day within 12 hours we were prepared to sit down with the Inspector General and outline what these numbers were and what they meant. They did not receive this information and refuse to acknowledge this information until after March 1. I can appreciate that. They are under a statutory requirement to file something by the first, but it was a week before and it was three items out of a trillion.

Yes, there were a lot of other things that could be brought up as weaknesses. Yes, they were there and they were there last year when we got a clean opinion from the Inspector General. We have reduced some. Some have been highlighted even more. That has also been acknowledged by the Inspector General. That wasn't what was discussed over that period of time that the audit occurred. The incident that led to the disclaimer was brought to management's attention a week before the first and we were prepared within 12 hours to respond to that but it was not accepted.

Mr. HORN. Well, you have mentioned the tenant income verification system to address the problem of subsidy payments. Do you think that will eliminate the problem?

Mr. RAMIREZ. That will eliminate, we believe, after we have run the system and have run one survey, and we are in the process of getting these letters out, but we will run another cycle and it will be an annual verification process. It will clearly be able to point to a more accurate number than the one that has been derived out of a sampling of a thousand households, as it currently is being done under the method that the Inspector General has employed for the last several years. We will be able to get to a more accurate number and to the person who is underpaying to be able to either get them to their fair share of rent or to get families or individuals that are qualified into those housing units and reduce that waste that is currently being outlined as a weakness.

Ms. KUHLMAN. One point, we agree with the tenant verification process, but it is a back-end process. They are reviewing the

income of tenants after they are in the units. One of the material weaknesses is the up-front issue—overseeing the multifamily projects which receive payments and Section 8 moneys. What kind of monitoring is HUD doing to make sure that the owners and housing authority executive directors are ensuring that the right tenants get in in the first place?

Yes, they are doing tenant income verification, and we agree with that, but it doesn't exclude the up front issue, which is a material weakness of overseeing and monitoring multifamily efforts at the beginning of the process, not the end.

Mr. HORN. Mr. Ramirez, you testified that the Department's financial house is now really in order?

Mr. RAMIREZ. No, I said it is in the best condition it has been in the history of the Department, sir, and we still have work to do.

Mr. HORN. Yes, I think you have a lot of work to do and you do too and you know it, and I appreciate your comments on that. So we agree you can't really make an assertion when the Inspector General continues to report material weaknesses and you won't produce financial statements in a timely manner.

Mr. RAMIREZ. We can dispute it. We believe that, sir, is behind us. We don't want to bog down our work in the present as a result of what occurred in the past. We are hopeful, as indicated by the Inspector General, that we resolve this 1999 disclaimer based on what got the financial statements disclaimed, and be able to report back to you in a timely manner the financial condition, overall financial condition of the Department, sir.

Mr. HORN. Well, you say in your first full paragraph that the Department's financial house is in order.

Mr. RAMIREZ. Mr. Chairman, we have not reached management nirvana, and we are not going to get there any day soon, but we are making credible progress, as Mr. Walker has said from the GAO.

Mr. HORN. I don't know that we can beat this poor old dog any more. It kept going through my mind that Hyperion is a facility in El Segundo, CA, of the city of Los Angeles, a waste water and water treatment facility.

Mr. RAMIREZ. Isn't it a shame that they use that throughout the Federal Government?

Mr. HORN. And any good parochial student here probably studied mythology, Greek and Roman, and I think that is it, too. We have an analogy on the West Coast.

Mr. RAMIREZ. Yes, we agree.

Ms. GAFFNEY. Mr. Chairman, may I just say one thing?

Mr. HORN. Go ahead.

Ms. GAFFNEY. HUD did want an extension of the March 1 date. The other thing is that OMB tried very hard. They said that we should extend by a couple of days, a couple of weeks, a month because of the importance of getting an unqualified opinion. We should do whatever. So I just wanted you to be aware that that kind of pressure exists.

Mr. RAMIREZ. Let me say by a matter of days, four agencies did delay their report through their Inspector General's office, and it did produce in a quite expeditious manner, as we believe it would have for us, a clean opinion, sir.

Mr. HORN. Well, I am worried about the possibility for corruption.

Mr. RAMIREZ. We all are.

Mr. HORN. Do you have your own investigative unit within the Department?

Mr. RAMIREZ. We leave all of the criminal investigation work to the Inspector General. Our focus through the enforcement center is to deal specifically with civil violations of law. In particular, what has been set statutorily and regulatorily through the agency by way of landlords, grantees and recipients, sir.

Mr. HORN. Well, you have a major mandate without question. It is a very difficult Department. Historically you are talking about decentralization all over the place and it will be a real gold medal if somebody pulls that together.

Mr. RAMIREZ. Thank you.

Mr. HORN. Let me thank the staff that put this hearing together, J. Russell George, the staff director and chief counsel for the subcommittee; Randy Kaplan, counsel, and he is to my left and your right; and Louise DiBenedetto is from GAO and a professional staff member working for us. Bonnie Heald, director of communications; Bryan Sisk, clerk; Ryan McKee, staff assistant. The minority staff, Trey Henderson is counsel and Jean Gosa is minority clerk, and the court reporter today is Doreen Dotzler. We thank you very much, and with that we are adjourned.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned.]

